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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Price Cap Performance Review for Local Exchange Carriers; Treatment of Video Dialtone Services Under Price Cap Regulation	)	CC Docket No. 94-1

COMMENTS OF
THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY

The Southern New England Telephone Company (SNET) respectfully submits these comments to respond to the Federal Communications Commission's (Commission's) Further Notice.[1]

I. Introduction

The Further Notice seeks comment on "the procedures to implement the segregation of video dialtone costs and revenues from those for telephony service for purposes of sharing and the low-end adjustment mechanism once LEC provision of video dialtone exceeds a de minimus threshold."[2] Specifically, the Commission seeks comments on the basis for establishing the threshold and whether the de minimus threshold should be based on the data required for submission under Responsible Accounting Officer (RAO) Letter 25.

[1] In the Matter of Price Cap Performance Review for Local Exchange Carriers; Treatment of Video Dialtone Services Under Price Cap Regulation, Second Report and Order and Third Notice of Proposed Rulemaking, CC Docket No. 94-1, FCC 95-394, (Further Notice).

[2] Further Notice, para. 39.

The Commission proposes two alternatives for Part 69 allocation for VDT. First, the Commission proposes that a Local Exchange Carrier (LEC) use the new services cost allocation methodology for setting its VDT rates. Alternatively, the Commission proposes using a fixed costs allocation factor, such as a specified percentage.

II. VDT Revenues And Costs Should Not Be Removed From Other Access Results For Monitoring Purposes.

The Commission determined that VDT is an access service, subject to price cap regulation. In its Order on Reconsideration, the Commission concluded that " access to the basic video dialtone platform is a form of interstate access to the extent it is used to route interstate video programming to end users."[3] The Commission further concluded that price cap local telephone companies should continue to be subject to the existing price cap rules for their provision of video dialtone services.[4] In the Order on Reconsideration, the Commission stated that "We view the price cap regulatory regime, and not the Part 36/Part 69 costs allocation scheme, as our primary means of protecting the telephone customers of price cap LECs from unreasonably high rates."[5] As the Commission has clearly defined VDT as an access service subject to price cap regulation, the Commission's rules that currently apply to access services should also apply to VDT.

Under current price cap rules, access service rates are segregated by baskets for purposes of the annual rate adjustments in accordance with the PCI and the overall interstate price cap services' rate of return to determine over or underearnings. The cost

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[3] Memorandum Opinion and Order On Reconsideration and Third Further Notice of Proposed Rulemaking, 10 FCC Rcd 244 (1994) (Order on Reconsideration), para. 195.

[4] Order on Reconsideration, para. 205.

[5] Order on Reconsideration, para. 166.

interstate price cap services' rate of return to determine over or underearnings. The cost separation among the baskets is not an issue, as each basket is monitored on price rather than profitability. Initial rates for new services are set using projected demand. Once approved, new service rates are then subject to PCI limitations with related revenue being included in the access monitoring process.

The Commission determined that basic video dialtone offerings of price cap LECs should be included in a new, separate price cap basket,[6] and that the rates for VDT to be included in the VDT basket will be based upon the price cap new services test, as applied to VDT services.[7] The Commission expanded the new services test as applied to VDT by requiring LECs to provide direct costs versus overhead costs, projections of demand elasticities, engineering studies, time and wage studies, and other cost accounting studies to identify the direct costs of video dialtone.[8]

Regardless of the expansion of new service test requirements for VDT service, the Commission has clearly defined VDT as access, and as such VDT revenues and costs should not be removed from other access results for monitoring purposes.

III. The Current Rules Are Appropriately Applied To VDT When A Segregation Of Costs Is Required.

The Commission has recognized that the allocation of costs based upon Part 36 and 69 rules may result in a different allocation of costs than that used to establish VDT

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[6] Further Notice, para. 15.

[7] Order on Reconsideration, paras. 212-222.

[8] While not at issue in the instant proceeding, the Commission's new services test for VDT is clearly overly burdensome and has impeded the introduction of VDT as a competitive alternative to monopoly cable providers. The Commission should consider eliminating the more stringent requirements for VDT and simply treat VDT as another access service.

rates under the Commission's new services rules. Using today's rules, VDT costs would be allocated between the interstate and intrastate jurisdictions and into Part 69 rate elements pursuant to the current Part 36 and Part 69 Rules, which is in accord with the Commission's Order on Reconsideration.[9] This separate VDT information could be isolated from the overall access rate of return monitoring mechanism, thus allowing all existing processes and procedures presently in use for jurisdictional separations and access monitoring to continue unchanged. The current Part 36 and Part 69 cost allocation procedure is a reasonable and justifiable approach to segregate VDT information and should be applied no differently than for other interstate access services.

IV. SNET Agrees That Data Submitted Pursuant To (RAO) Letter 25 Would Be Appropriate To Establish A De Minimus Threshold If Necessary.

RAO Letter 25 requires VDT LECs to maintain subsidiary records by the Commission's Uniform System of Accounts (USOA), 47 C.F.R. Part 32, for all wholly dedicated and shared investment, expense and revenue related to providing video dialtone service. SNET agrees that the level of a de minimus threshold be based upon data collected pursuant to RAO Letter 25.

The purpose for establishing the threshold is to determine when VDT has a material impact on the overall regulated interstate services. SNET suggests that a

[9] Order on Reconsideration, para. 186.

reasonable measure of the threshold could be based on the ratio of direct VDT assets deployed (telephone plant in service) as defined in RAO 25 to total assets deployed. The threshold should be set at a ratio of 5%, a threshold often used as a reasonable measure of materiality.

SNET's proposed approach provides a rational methodology to determine the de minimus threshold for VDT, and avoids the inappropriate reimposition of rate of return regulation on price cap LECs.

V. Conclusion

In its Order on Reconsideration, the Commission determined that VDT is an access service. The Commission also concluded that basic VDT service offerings of price cap LECs should be included in a new, separate price cap basket. As an access service included in the price cap plan, VDT should be treated in the same manner as other price cap common carrier services and VDT revenues and costs should not be removed from other access results for monitoring purposes. The Commission's Part 36 and 69 Rules are sufficient to allocate reasonable costs to VDT. As VDT will now be included in the price cap plan, it is appropriate to include VDT in the overall monitoring of price caps rate of return.

Respectfully submitted,

The Southern New England Telephone Company

by: Eugene J. Baldrate

Eugene J. Baldrate
Director - Federal Regulatory
227 Church Street
New Haven, Connecticut 06510
(203) 771-8514

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